



The Real Estate Institute of Australia
Policy Initiatives for Inclusion in a Specific
Housing Policy

*Prepared by the Real Estate Institute of Australia
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Purpose

The Real Estate Institute of Australia (REIA) seeks your support for the inclusion of the following in a comprehensive housing policy:

- Review the amount of the First Home Owners Grant (FHOG)
- Allow first home buyers access to their superannuation for the purchase of a home
- National Property Taxation Framework
 - Action Henry Review Outcomes in relation to state property taxes
 - Retain current arrangements for negative gearing of property investments
 - Not impose Capital Gains Taxes on the family home
 - Not increase Capital Gains Tax on property investments
- Monitor and review the Housing Affordability Fund (HAF) and National Rental Affordability Scheme (NRAS) to observe its effects on housing supply and to conduct a review which considers additional measures to bridge the demand – supply imbalance.
- Foreign Investment Review Board Guidelines
- Mandatory disclosure of energy efficiency ratings
- Improve competition in the mortgage market.

Background

The REIA is the peak national association for the real estate profession in Australia.

The REIA has seven members, comprised of the state and territory Real Estate Institutes, through which around 80% of real estate agencies are collectively represented.

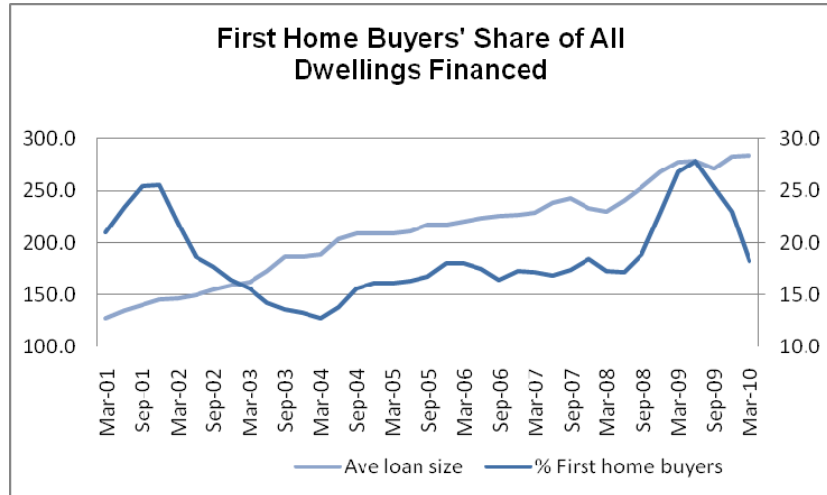
The real estate industry employs approximately 80,000 persons. The REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social climate and economic development. Property contributes \$300 billion annually in economic activity and played an integral role in the Government's response to the global financial crises.

Context

After a period when most advanced economies experienced a sharp economic deceleration, particularly over the six months from September 2008 to March 2009, global economic conditions have generally improved and in some cases performed better than expected. This can be attributed to governments around the world responding to the global financial crises by cutting interest rates, improving conditions for financial institutions and increasing government spending through stimulus packages to improve household consumption. Whilst the global economy is recovering albeit non-uniformly the sustainability of growth is not certain.

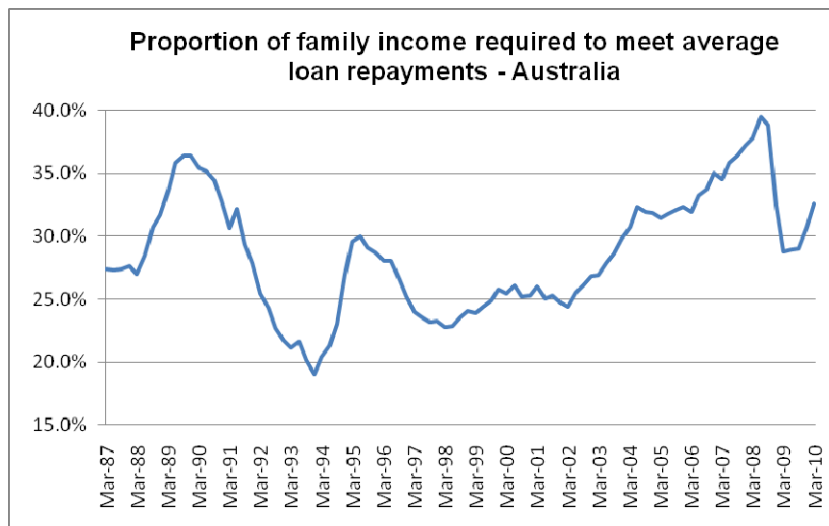
These initiatives, coupled with monetary policy, initially contributed to enhance the participation of first home buyers in the housing market. The number of first home

buyers, as a percentage of total owner occupied housing finance commitments has however decreased to 16.1% in May 2010 compared to the long run average of 20.1 %.



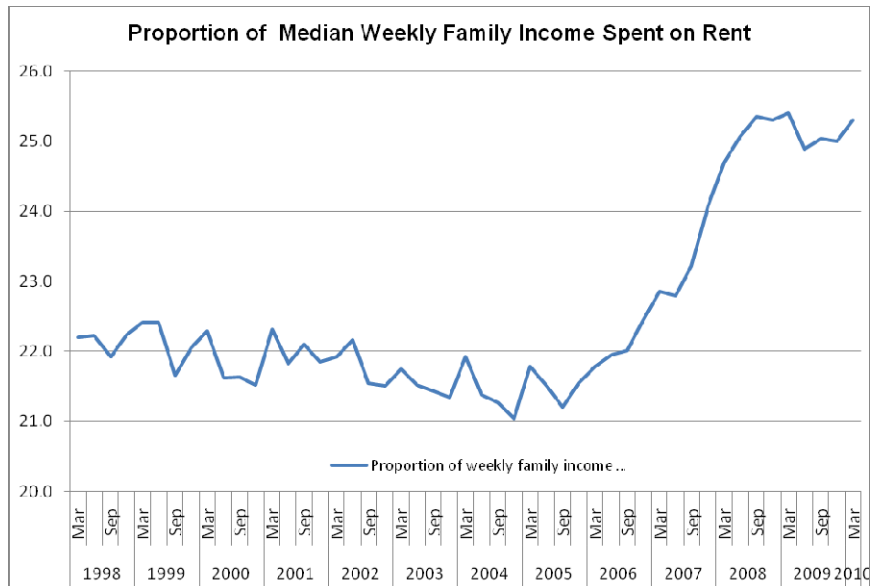
Source: Real Estate Institute of Australia

Housing affordability has also been in decline in the last 12 months. The proportion of income required to meet loan repayments in the March Quarter of 2010 was 32.6% compared to 28.8% the year before.



Source: Real Estate Institute of Australia

Rental affordability has also been declining over time. In the March Quarter of 2010 the proportion of income required to meet rent payments was 25.2% compared to levels around 20% five years ago.



Source: Real Estate Institute of Australia

There are severe constraints in housing supply which need urgent attention. The Government's National Housing Supply Research Council points out that in recent years Australia has not built sufficient dwellings to keep up with demand and is resulting in low levels of vacancy rates across the country. Land taxes and the rapid growth of development charges are blamed for having impeded housing supply. Reports from

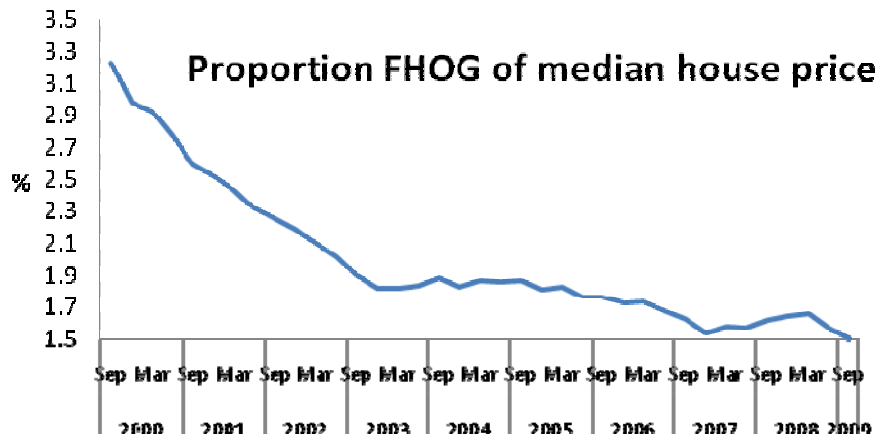
REIA members and the building industry indicate that whilst the level of interest in ownership amongst first home owners increased in response to the Boost, the lag in the supply response by builders and developers means many potential buyers could not use the Boost to help them acquire their first homes.

Review the First Home Owners Grant

One of the most important housing policy instruments in assisting first home buyers with housing affordability is the First Home Owners Grant (FHOG), which was introduced in July of 2000.

The REIA urges a review of the amount currently provided as the relative size of the grant has declined markedly in relation to house prices. When the FHOG was introduced in July 2000, the Australian quarterly weighted average median house price was \$220,443. The Australian weighted average median house prices in the most recent quarter for which data is available, March 2010, was \$518,624.

The graph below shows the contribution of the grant towards the purchase price has more than halved from 3.2% to 1.5% over the period. The proportion of FHOG in median house prices exhibits a downward trend since the introduction of the grant. Except in those states/territories which have stamp duty concessions for first home buyers, when stamp duties are taken into account the decline is even more marked.



Source: Real Estate Institute of Australia

Coincidentally with the introduction of the Boost in October 2008 the FHOG, for an established dwelling, had in essence retained parity with the time it was introduced.

The REIA proposes that the FHOG be set at \$15,000 for all housing, new and established, and that it be indexed to median house price movements annually and is seeking your support for this.

Allow First Home Buyers Access to Their Superannuation for the Purchase of a Home

The REIA is concerned that the overall level of homeownership in Australia has not shown significant improvements since 1995 and that first home buyers find it increasingly difficult to enter the housing market. Although the Boost has helped the participation of first home buyers in the market, it was a short term measure and does not provide first home buyers a long term support.

As part of a package of measures to address the affordability problem, the REIA proposes that a scheme be established which would encourage young Australians to contribute to voluntary superannuation by allowing access to these resources for the purposes of raising a deposit for a first home.

The scheme would be an adjunct to the First Home Savers Account but would allow flexibility for the saver to decide whether all or part of the voluntary superannuation payments was needed to augment the home purchase.

The integrity of compulsory superannuation would be maintained by limiting the scheme to the voluntary superannuation contributions of first home buyers.

The REIA proposes that first home buyers have access to their voluntary superannuation contributions for the purchase of a home and is seeking your support for this.

National Property Taxation Framework

Actioning Henry Review Outcomes in relation to state property taxes

The REIA in its submission to the Henry Review called for the abolition of state property taxes as these are inequitable, inefficient and an unstable source of revenue for states and territories. Further their abolition and replacement with a broader based more efficient tax would provide large economic benefits increasing GDP, household consumption, investment and improve labour mobility.

Whilst the Henry Review, however, did canvass a number of areas for action Government's response did not include any action in this area.

The REIA will be requesting the incoming Government to establish ongoing consultation with stakeholders on inefficient state property taxes with the aim of abolishing them and is seeking your support for this.

Retention of current arrangements for negative gearing of property investments

Negative gearing for the purpose of property investment in its current form in addressing the supply of rental accommodation is complementary to the goals of the Housing Affordability Fund (HAF).

The Hawke Government abolished negative gearing for property in 1985 only to have it reinstated in 1987. During that period rents increased by 57.5% in Sydney, by 38.2% in Perth and by 32.0% in Brisbane. At the same time building approvals fell by 13.8%. When negative gearing was reinstated the Government noted that any tax advantages conferred by negative gearing were countered by the CGT regime when capital gains were realized.

Further, to amend the current negative gearing provisions for housing as some submissions to the Henry Review have suggested would be treating real estate differently to other asset classes and create a resource misallocation.

The REIA proposes that negative gearing be retained in its current form for the purpose of property investment and is seeking your support for this.

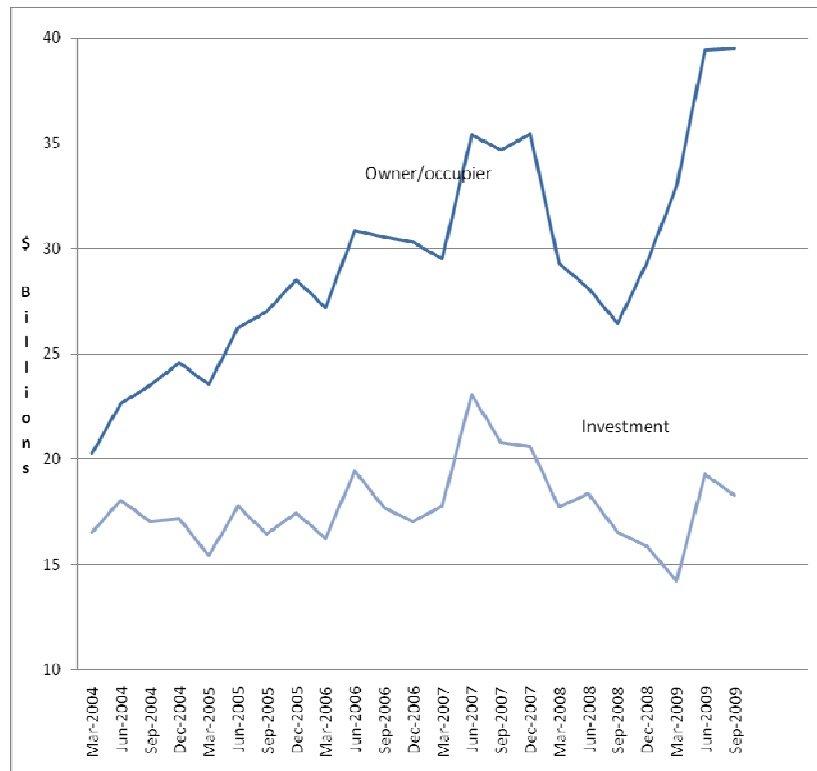
No capital gains tax on the family home

Some submissions to the "Henry Review" have proposed the introduction of a capital gain tax on properties above a certain value - \$1 million is a popular proposed trigger point. These analyses however ignore important aspects about the structure of property taxes and the dynamics of the housing market.

REIA considers that is important to take into account relative returns of assets and the life cycle of asset accumulation:

One of the reasons for purchasing one's own home and investment property has been the investment performance compared to other asset classes. For the period September 1996 to March 2009 the All Ordinaries Index showed a return of 6.5% per year at a risk of 15.3%. By comparison property returns over the same period were 13.5% per annum – twice that of shares – and a lower risk factor of 6.3%. Investment in housing is responsive to relative returns.

This is illustrated by the 56.8% increase in the proportion of housing finance for investment over the period September 1996 to December 2003 when the average annual return from housing investment was 14.2% compared to All Ordinaries Index increase of 5.0% per annum. Similarly, for the period March 2004 to December 2007, when the All Ordinaries Index had an annual growth of 19.8% the proportion of housing finance for investment housing decreased markedly.



Source: Australian Bureau of Statistics (ABS)

The normal life cycle of asset accumulation explains why the greatest recipients of tax expenditures are older people and why households with higher incomes receive greater tax expenditures.

The cost of administering an annual CGT payment on family homes is another factor that needs consideration. A way of valuing subject property would be required. A general

movement in prices would not be sufficient or equitable. Houses are not a homogeneous product. There are many differences in the attributes of houses and their condition and maintenance. It is these differences that determine why one property is worth more than another even when they are next door to each other. Not only are there differences in the characteristics determining the base line valuation but improvements to the property such as renovated kitchens, extensions and landscaping need to be reviewed on an annual basis if an accurate assessment is to occur. An appeal mechanism will also need to be in place to allow house owners across Australia to dispute Government valuations.

The REIA proposes that a capital gains tax is not imposed on the family home whatever its value and is seeking your support for this.

No increase in capital gains tax on property investments

Again, many submissions to the “Henry Review” have called for the doubling of CGT on rental properties. To double CGT on rental properties would have major consequences on the supply of rental housing in a market that already has tight vacancy ratios. The impacts on rents could be similar to the situation in 1985 when the Hawke Government denied many investors tax deductibility of interest payments. At the time the rents required for many properties would have had to increase by around 80% for investors to stay in the property market. With a market response that led to an undersupply of rental property and escalating rents the decision was reversed less than 24 months later. The REIA believes that any increase in capital gains tax arrangements for rental property, particularly if they applied to only property and not other asset classes, would lead to a similar response to that in 1985.

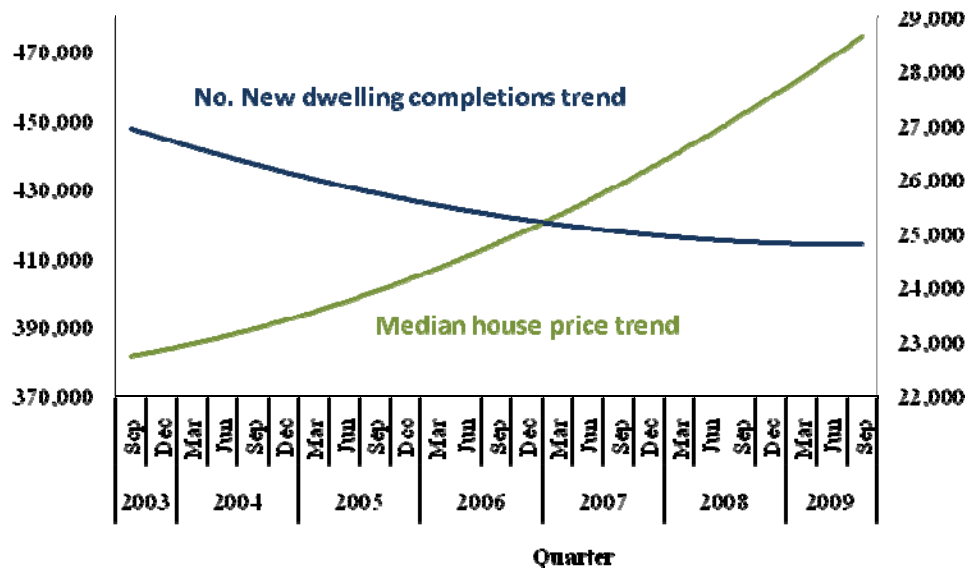
As it is, CGT is calculated on nominal gains rather than real gains after inflation, ie the cost base is not adjusted for inflation. The current halving of the capital gain before CGT obligations are calculated is only a concession when asset prices rise at least twice as fast as the inflation rate. In any case all asset classes are treated equally.

The REIA proposes that capital gains tax on property investments is not increased and is seeking your support for this.

Monitor and Review HAR and NRAS

A factor that contributing to increases in house prices and the decline in housing affordability is the under supply of housing. Supply has been unable to keep pace with demand due to constraints on land availability, lengthy planning delays, skill shortages and lower yields stemming from the increased cost of entering the property investment market.

The graph below shows the trends of median house prices and the number of new dwelling completions. There is an inverse relationship between median house and the number of dwellings completed: the upward trend in median house prices is associated with a downward trend in the number of dwelling completions.



Sources: Australian Bureau of Statistics (ABS), Real Estate Institute of Australia

In July 2008, the Housing Affordability Fund (HAF) was established to address housing supply problems, particularly the holding costs incurred by developers as a result of long planning and approval waiting times and infrastructure costs. It also targets infill and greenfield developments. The REIA is supportive of the HAF and the National Rental Affordability Scheme (NRAS) in addressing housing supply.

According to the National Housing Supply Council the gap between the supply and demand for housing will increase in the next eight years, which will put further pressure on house prices.

Date	Cumulative Demand-Supply Gap
2010	202,400
2011	228,300
2012	254,800
2013	281,600
2014	308,000

Source: National Housing Supply Council, State of Supply Report

REIA considers it is important to not only monitor the impact of the NRAS and the HAF on housing supply to gauge whether its objectives are being met but to also conduct a review which considers additional measures to bridge the demand-supply imbalance.

The REIA proposes that the NRAS and HAF programs be monitored to observe their effects on housing supply and to conduct a review which considers additional measures to bridge the demand - supply imbalance and is seeking your support for this.

Foreign Investment Review Board Guidelines

The REIA supports the recent changes made to the Foreign Investment Review Board (FIRB) Guidelines as they relate to residential property.

There are however aspects of the changes that are of great concern to the REIA

Agents are to be placed in a position of policing or vetting buyers and the information they provide

Agents being penalised when they have been unwittingly party to prohibited transactions

An agent acts for the vendor(s) through a contractual obligation. When a sale is agreed the amount of information that a real estate has about the buyer and their intentions is limited to a name, address, possibly other contact details, solicitor's name and on some occasions the financing of the purchase (mortgage etc). The information is based entirely on what is provided by the buyer and is taken in good faith. These details are then passed on to the vendor's solicitor/conveyance who then proceeds with the sale to completion. An agent dealing with a buyer from a background other than Australian is hard pressed to know whether the buyer has permanent residency, is a student, is a temporary resident or is a foreigner. It is solicitors for both parties and/or financial institutions, if money is being borrowed or transferred, that have a better knowledge of the residency status of the buyer.

The REIA proposes that FIRB Guidelines: do not unjustifiably penalise agents for the actions of unscrupulous buyers; do not put agents in a position of vetting buyers, and; that an easy-to-read guide for the real estate industry be produced without delay. The REIA is seeking your support for this.

Mandatory Disclosure of Energy Efficient Ratings

Under the Coalition of Australian Governments (COAG) National Strategy for Energy Efficiency, mandatory disclosure of residential building energy, greenhouse and water performance at the time of sale or lease will be required. This will commence with energy efficiency by May 2011.

Whilst these requirements are aimed at reducing green house emissions and providing savings to households through the reduction of energy consumption, there will still be upfront costs which affect housing affordability. Costs that many regard as unnecessary as buyers of existing dwellings have told agents that energy efficiency ratings are well below other factors as a priority in determining housing choices.

The proposal also places agents in a position of educating vendors and ensuring their compliance with requirements.

The REIA is asking the incoming Government to: take note of REIA's opposition to mandatory disclosure based on market feedback of buyer priorities; pursue low cost options for mandatory disclosure, and; ensure agents do not carry any unnecessary burden, including the education and compliance of vendors. The REIA is seeking your support in this.

Improve Mortgage Market Competition

In response to the global financial crisis, in October 2008 the Government implemented guarantee arrangements for deposits and wholesale funding of eligible authorised deposit-taking institutions with the purpose of promoting stability in the Australian financial system. Under the guarantee conditions financial institutions with lower credit rating pay higher fees than those with higher credit rating in order to get the guarantee.

REIA supported the Government initiative to financial institutions who met specific APRA guidelines.

However small institutions with lower credit ratings, which have to pay higher fees, have lost market share in the mortgage market to the big four banks. The Senate Economics Legislation Committee's November 2009 Report in to the Banking Amendment (Keeping Banks Accountable) Bill 2009 noted that "a reduction in the competitive pressure ...and some consolidation within the banking industry... the combined effect has been that the four major banks have gone from accounting for around 60 percent of new home loans in 2007 to approaching 90 percent right now". This situation has not eased.

The REIA proposes that any advantage the big four banks have obtained over the smaller banks be mitigated and competition in the mortgage is improved and is seeking your support for this.

Concluding Comment

The REIA welcomes the opportunity to present proposals for inclusion in a specific Housing Policy which is aimed at contributing to Australia's continuing strong economic development, addressing the supply of housing and improving housing affordability.